



Fact Sheet

BYRON L. DORGAN
CHAIRMAN

DPC Staff Contact: Erika Moritsugu (202) 224-3232

DPC Press Contact: Barry Piatt (202) 224-0577

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Unlocking Credit for Small Businesses: *The Key to Recovery and Job Creation on Main Street*

Traditionally, small businesses have been the engine for economic growth and job creation in the United States. Small businesses represent more than 99 percent of all employers, produce more than half of our non-farm Gross Domestic Product (GDP), and have generated nearly two-thirds of new jobs over the past 15 years. Small businesses are also at the cutting edge of innovation, hiring 40 percent of all high-tech workers and producing 13 times more patents per employee than larger companies.

The continued effects of the financial crisis and credit crunch, which nearly resulted in a catastrophic economic “meltdown” during the Bush Administration, are a significant obstacle to job creation. According to a report issued last week by the Federal Deposit Insurance Corporation, lending by U.S. banks plunged by \$210.4 billion – or 2.8 percent – in the third quarter of 2009, the largest drop since at least 1984 and the fifth consecutive quarter in which banks have reduced lending. Large banks, the beneficiaries of billions of dollars in federal Troubled Asset Relief Program (TARP) funding, have been responsible for a disproportionate share of this decline.

An increasing number of small business owners are feeling the impact of the credit crunch. Since the onset of the financial crisis, which began in 2007 and worsened in 2008, small business credit terms have tightened, loan volumes have dropped, and small businesses – even profitable companies with track records of success – are struggling to survive. A Treasury Department report released last month found that the 22 banks that have received the most funding through TARP have cut their collective small business loan balances by \$10.5 billion over the last six months. Without adequate access to affordable credit, American small businesses cannot expand or hire, and many have had to shut their doors.

The Democratic-led Senate, working with House Democrats and the Obama Administration, has enacted reforms to provide small businesses the assistance they need to lead America out of the recession. The *American Recovery and Reinvestment Act (P.L. 111-5)* took important steps toward providing small businesses with needed support, dedicating \$780 million to jumpstart lending. This included fee eliminations to make Small Business Administration (SBA) loans more affordable, higher SBA loan guarantees to incentivize private sector lending, initiatives to unfreeze the secondary market, and a new program to provide no-interest loans and a year’s grace period to help small businesses pay their bills. In the *Omnibus Appropriations Act for Fiscal Year 2009 (P.L. 111-8)*, Congress built on the *Recovery Act* by increasing funding for

loans, counseling, and contracting assistance that small firms need to succeed. While these efforts have made a difference, Senate Democrats will redouble our efforts in the coming weeks to ensure that small businesses have access to the credit and capital they need to expand and create new jobs.

Small businesses cannot obtain the financing they need to operate and thrive.

“There are still too many entrepreneurs who can't get the loan they need to open their doors and start hiring. There are still too many who are struggling to make payroll and stay open. And there are still too many successful small businesses that want to expand further and hire more but just don't have the capital to do it.”

- President Obama, [10/21/09](#)

Small businesses are generally more reliant on financing from banks, and are, accordingly, more vulnerable to the credit crunch. According to the most recent report by the Federal Deposit Insurance Corporation, lending by U.S. banks fell by 2.8 percent in the third quarter of 2009. This is the largest drop since 1984 and the fifth consecutive quarter in which banks have reduced lending. [*Washington Post*, [11/25/09](#)] This “serious impediment to economic recovery” is disproportionately impacting American small businesses. According to the San Francisco Fed, “small businesses may be particularly vulnerable to a credit crunch. Small companies do not have access to the capital markets. Thus, their sources of external financing are much more limited than large corporations.” [FRBSF Economic Letter, [3/6/09](#)] Treasury Secretary Tim Geithner agreed, stating recently that “small businesses are typically more reliant on bank financing than their larger counterparts. When banks pull back, small businesses take the hardest hit.” [*Wall Street Journal*, [11/18/09](#)]

While credit may be “increasingly abundant” for larger companies, “for many smaller companies, borrowing remains tough.” [*New York Times*, [10/13/09](#)] “Although credit continues to remain troublingly hard for small business to come by, that phenomenon is a largely untold story. Wall Street focuses on big companies because they are in the Standard & Poor’s 500, but small businesses are still in a very grim state... Small-company activity according to the NFIB. [National Federation of Independent Businesses] is still at deep recession levels.” [*New York Times*, [11/28/09](#)]

Small business lending has contracted and small businesses are feeling the pain of the credit crunch. Federal Reserve Chairman Ben Bernanke recently observed that: “Many small businesses have seen their bank credit lines reduced or eliminated, or they have been able to obtain credit only on significantly more restrictive terms. The fraction of small businesses reporting difficulty in obtaining credit is near a record high, and many of these businesses expect credit conditions to tighten further.” [Statement of Ben Bernanke, CNN Money, [11/16/09](#)]

The Federal Reserve’s quarterly Senior Loan Officer Opinion Survey on Bank Lending Practices showed that, throughout 2008, small business lenders and borrowers reported signs of a credit slowdown. This process of tightening credit for small businesses began in early 2008 and worsened over the course of the year (with the number of banks reporting that they had tightened small business lending standards increasing steadily from 30 percent in January to 74.6 percent in October). [Federal Reserve Board, accessed [11/09](#)] In the April, July, and October 2009 surveys, no banks reported that they had eased lending standards for small business applicants

in any appreciable way, and only one bank in the July 2009 survey claimed to have eased its standards “somewhat.” [Federal Reserve Board, accessed [11/09](#)]

There are several reasons why banks are making fewer loans to small businesses. In any recession, when business slows, the ability of companies to obtain credit suffers. Decreased demand for credit and capital in the small business sector, and banks’ interest in improving their balance sheets, are part of the picture. These factors, however, which are present in any economic turndown, have been exacerbated by the financial crisis and credit crunch. In the current lending environment, the lack of credit has a negative, circular impact: “Poor access to credit for a small business, its suppliers, and its customers can weaken that business’s finances and ultimately its creditworthiness.” [Congressional Oversight Panel, 5/7/09]

Whatever the cause, there is no dispute that small business owners cannot access the credit they need. In a recent survey, 55 percent of small business owners said that their businesses had been impacted by the credit crunch in February 2008. In August 2008, the number rose to 67 percent, and in December, the number increased to 69 percent. By July 2009, “a whopping 80 percent of small business respondents [had] been impacted by the credit crunch.” [National Small Business Association, [7/09](#)] “[T]hat same survey reported that a significant majority of banks have increased the costs of credit lines while at the same time about 40 percent have reduced the size of business loans.” [National Small Businesses Association, [7/09](#)] The *New York Times* recently reported that “14 percent of small businesses found loans harder to secure in August than in July, according to the most recent survey by the National Federation of Independent Business. Among companies borrowing regularly, less than one-third reported that all their credit needs were being met.” [*New York Times*, [10/13/09](#)]

Small business owners are increasingly relying on credit cards, but credit card terms are worsening. As of April 2009, 59 percent of America’s small firms relied on credit cards to help finance their day-to-day operations, up from 44 percent at the end of last year and 16 percent in 1993. [National Small Businesses Association, [7/09](#)] “The number of small-business owners who depend on a credit card to buy items as varied as paper clips and heavy equipment has climbed steadily over the years, from just 16 percent in 1993. Today, that group makes up 11 percent of the revenue for Visa and MasterCard, from 3 percent in 1998...” [*New York Times*, 6/10/09]

And the terms can be much less favorable than traditional lines of credit. “[S]mall business owners generally view credit cards as undesirable because of their high interest rates and frequently changing terms.” [Testimony of Todd McCracken on behalf of the National Small Business Association, [3/19/09](#)] Small business owners’ credit card limits and lines of credit have been “arbitrarily reduced due to no fault of their own. These reductions are typically due simply to the fact that, as a small business, the lending institution views the credit as risky. When asked in December, 28 percent of small-business owners responded that they had experienced a decrease in their lines of credit or a credit-card limit in the past six months. In July, 38 percent—up 10 points from December—reported that they had experienced a decrease in their lines of credit or a credit-card limit in the past six months. [National Small Businesses Association, [7/09](#)]

Meanwhile, other lines of credit are also drying up. A 2008 Small Business Poll conducted by the National Federation of Independent Business found that 22 percent of small business respondents had taken out at least one mortgage to fund business activities, with 16 percent using real estate to collateralize other business assets and ten percent using their personal homes as collateral. “Unfortunately for small businesses, credit-line cuts are only about half way through. Home equity loans, also historically a key funding source for start-up small

businesses, are not a source of liquidity anymore because more than 32% of U.S. homes are worth less than their mortgages.” [Wall Street Journal, Opinion, [10/1/09](#)]

TARP bailout money has not yet helped. According to a Treasury Department report released in mid-November, the 22 banks that have receiving the most funding through the Troubled Asset Relief Program (TARP) have cut their collective small business loan balances by \$10.5 billion over the last six months. “Three of the 22 banks make no small business loans at all. Of the remaining 19 banks, 15 have reduced their small business loan balance since April, when the Treasury Department began requiring the biggest banks receiving Troubled Asset Relief Program (TARP) funding to report monthly on their small business lending.” [CNN Money, [11/16/09](#)]

The following is a list of the top ten banks that are the biggest small business lenders:

TARP Recipient	TARP\$ Received	% Change from April 2009
Wells Fargo	73.8 billion	-3.9
Bank of America	41.9	-5.0
JPMorgan Chase	25.4	-2.5
American Express	14.9	-5.6
Regions	14.1	-5.8
U.S. Bancorp	12.5	+1.9
BB&T	12.0	+0.1
PNC	11.8	-12.1
Capitol One	11.4	-7.3
Citigroup	10	-3.4

[Treasury Department data from 4/30/09-9/30/09 cited by CNNMoney, [11/17/09](#)]

Recovery Act small business provisions may have helped, but they are limited and poised to run out of money by the end of the year. The *Recovery Act* provided loan fee relief of up to \$375 million to temporarily eliminate fees associated with 7(a) and 504 SBA loans, which make up 40 percent of all long-term capital to small businesses and helped to create or retain more than 544,000 jobs last year. Since the *Recovery Act* was signed into law in February 2009, the SBA has supported more than \$16 billion in loans nationwide. [Dallas Morning News, [11/25/09](#)] The SBA says these programs revitalized small-business lending, but the programs proved to be so popular that the funds are nearly gone now. [NacsOnline, [11/25/09](#)] These *Recovery Act* loan programs, “lured hundreds of banks back to the small-business lending arena” and attracted more than 1,260 lenders that hadn’t made SBA loans since October 2008.” The money for the enhanced loan program, however, is expected to be depleted by the end of the year, potentially creating “a new credit squeeze as early as next month, in what amounts to a gap period between the expiration of two popular stimulus provisions and the ramp-up of President Barack Obama's plan to boost loans for small companies.” [Wall Street Journal, [10/30/09](#)]

The economy cannot recover if small businesses do not recover

“Small businesses... are the job generators in this country.”

-Congressional Record, Statement of Senator Dorgan, 11/20/09

With small businesses making up the largest source of employment in the United States, and at a time when millions of Americans are out of work, we need our small business innovators and job creators more than ever. From 2005 to 2006 (the last period for which we have data), small businesses created 70.1 percent of new jobs. [SBA, [10/2009](#)] When Main Street businesses cannot get credit, however, Americans lose jobs. More than eighty percent of the jobs lost since November 2008 have come from small firms. [ADP, accessed [11/30/09](#)]

Because of the small business credit crunch:

- **Business start-ups are stalled.** “[T]he one thing that’s preventing prospective franchise owners from realizing their business ownership dreams, as of this writing, is the credit crunch. The major lenders are not opening their bank’s vaults to a lot of business start-ups, including new franchise openings.” [Small Business Trends, [11/16/09](#)]
- **Contract businesses will not bid on new work.** “For companies that work on a contract basis bidding for jobs in advance, tight credit sometimes precludes their ability to seek new business: They cannot raise capital to hire workers and add equipment. In Alexandria, Minnesota, Bob Novak, president of ACB Construction, has in recent months declined to bid on large-scale government jobs in Utah because of what he describes as a frustrating lack of credit for people in his line of work. His work force has shrunk to 1, from 14, in the last two years, yet every effort to generate fresh business seems to get snuffed out by rejections from banks... ‘I’ve had to walk away from jobs because I cannot get the funding.’” [New York Times, [10/13/09](#)]
- **Delay and uncertainty of financing is holding back business opportunities and hiring.** “Med-National provides medical and dental services on a contract basis, mostly to the Defense Department. The San Antonio-based company has been in business for more than 20 years, has never lost money, and logged \$5.9 million in sales last year, said the executive vice president, Robert S. Welborn Jr. Yet as the company recently sought to secure a pair of contracts with the United States Army, its plans were delayed for nearly a year as it tried and failed to persuade a bank to lend it \$300,000. The financing was required to hire the roughly 20 people needed to deliver the services — doctors and dentists and support staff. Mr. Welborn initially called local banks with whom he had done business in years past, among them JPMorgan Chase and Wachovia. Their answer surprised him: no. ...In August, Mr. Welborn finally lined up financing from Wells Fargo and began hiring. Yet the delay and the uncertainty have left him reluctant to pursue other contracts.’ If we could borrow the money more easily,’ he said, ‘we would be hiring even more people.’” [New York Times, [10/12/09](#)]
- **Businesses that are ready to grow and hire are held up.** “Robert Stopanio’s new medical-device manufacturing plant was supposed to open eight months ago and employ about 75 workers in a state that desperately needs jobs. But Stopanio hasn’t been able to

find the financing... local businesses say they are ready to grow — if only they could get a loan.” [LJWorld.com, [11/15/09](#)]

- **Significant job creation is hindered.** According to the National Franchise Association, if SBA loan limits were increased from \$2 to \$5 million, 450,000 to 650,000 new jobs would be created in the next 12 to 18 months in the franchise sector alone. “These new businesses will create 243,750 to 325,000 jobs (assuming 15-20 direct jobs per store) plus an additional 245,000 to 325,000 indirect jobs. Therefore, we believe that a larger loan limit will enable some of these franchise small business owners to expand into new markets and help the U.S. create between 450,000 to 650,000 new jobs within the next 12 to 18 months.” [Testimony of Matthew R. Shaw, 10/14/09]

These examples illustrate the point recently made by Fed Chairman Ben Bernanke: “Difficulties in obtaining credit could hinder the expansion of small and medium-sized businesses and prevent the formation of new business.” [CNN Money, [11/16/09](#)] That is why Democrats – in the Congress and in the White House – are working to ensure that our nation’s innovators and entrepreneurs continue to fuel the recovery and create millions of new jobs for American workers.